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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

PUBLIC SERVICE  
COMMISSION

In the Matter of: )  
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The Application of Columbia Gas of ) Case No. 2008- 00403  
Kentucky, Inc. for an Order Authorizing the )  
Issuance and Sale of Promissory Notes and )  
Authorized but Unissued Common Stock )

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APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC.

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The petition of Columbia Gas of Kentucky, Inc. ("Columbia") respectfully states:

(a) That applicant is engaged in the business of furnishing natural gas service to the public in certain counties in the Commonwealth of Kentucky, pursuant to authority granted by the Public Service Commission ("Commission").

(b) That Columbia's full name and post office address are:

Columbia Gas of Kentucky, Inc.  
2001 Mercer Road  
P.O. Box 14241  
Lexington, KY 40512-4241

(c) That Columbia's Articles of Incorporation have previously been filed with the Commission in Case No. 2000-129 and are incorporated herein by reference.

(d) That Columbia is a wholly-owned subsidiary of Columbia Energy Group ("CEG"), which is a wholly-owned subsidiary of NiSource Inc. ("NiSource"). NiSource is a registered holding company under the Public Utility Holding Company Act of 1935, whose principal office is located at 801 East 86th Avenue, Merrillville, IN 46410.

(e) That pursuant to KRS § 278.300, Columbia files this application with the Commission and requests authorization to issue and sell Long-term Promissory Notes ("Notes") to NiSource Finance Corp., which is also a wholly-owned subsidiary of NiSource, and/or to secure additional equity financing from Columbia Energy Group, also a wholly-owned subsidiary of NiSource, through the issuance and sale of the currently authorized and unissued Common Stock ("Stock"), \$25 par value per share. Columbia requests authority to issue new Notes and/or Stock not to exceed a total of \$30,000,000, from the date of the Commission's order herein through December 31, 2010, as more fully described below.

(f) As of June 30, 2008, Columbia had authorized 1,100,000 shares of common stock, par value \$25 per share, amounting to \$27,500,000. Of this amount, 952,248 shares were issued and outstanding. There was no preferred stock authorized, issued or outstanding. Columbia was not party to trust deeds or mortgages and there were no mortgage notes outstanding. There were no bonds authorized, issued or outstanding.

(g) During the twelve-month period ended June 30, 2008, the short term borrowing authorization was \$50,000,000 of which \$0 was outstanding at June 30, 2008. The interest expense on short-term debt during the twelve-month period ended June 30, 2008 totaled \$5,760.

(h) In order to finance its capital program, and for other corporate purposes, Columbia will require, in addition to internally generated funds, up to \$30,000,000 of new money. Columbia therefore requests Commission authority to secure from the issuance to NiSource Finance Corp. of Notes, and/or the sale of Stock to Columbia Energy Group, the total of which shall not exceed \$30,000,000 as more fully described below.

(i) The proceeds to be realized from the proposed sale of new Notes and/or sale of Stock is, in part, to reimburse Columbia's treasury for Columbia's 2008 through 2010 construc-

tion program totaling \$41,613,000. Columbia estimates that its capital expenditure for 2008 will be \$13,247,000, for 2009 will be \$15,358,000 and for 2010 will be \$13,008,000. These expenditures will be required for the purposes of the acquisition of property and for the construction, completion, extension and improvement of company facilities. Columbia intends to use the proceeds from its proposed sale of promissory notes and/or Stock to acquire property in the form of materials used in the ordinary course of providing public utility service – e.g., the purchase and installation of mains, service lines, meter, regulators, etc. Columbia does not anticipate to use the proceeds from the sale of the proposed promissory notes to finance any major acquisitions.

(j) **Issuance of New Notes.** The Notes will be unsecured and will be dated the date of their issue. The Notes will be issued with maturities of up to thirty years; will bear an interest rate that corresponds to the pricing being offered companies with financial profiles similar to NiSource Finance Corp.; and will reflect market conditions at the time of issuance. The interest rate of the Notes will be determined by the corresponding applicable Treasury yield (as reported in Federal Reserve Statistical Release, H.15 Selected Interest Rates (Daily)) effective on the date a Note is issued, plus the yield spread on corresponding maturities for companies with a credit risk profile equivalent to that of NiSource Finance Corp. (as reported by Reuters Corporate Spreads) effective on the date a Note is issued. For maturities not specifically referenced in the Statistical Release or Reuters, an interest rate will be calculated based upon a simple linear interpolation method. All of the new Notes, not to exceed \$30,000,000 will be issued on or before December 31, 2010.

(k) **Common Stock.** Columbia proposes to issue and sell to Columbia Energy Group up to 147,752 shares of authorized, but unissued Stock, at \$25 par value, yielding up to

.....\$3,693,800 in additional equity capital. All such shares issued and sold to be fully paid and non-  
assessable.

(l) Because the Notes and Stock are to be sold privately, they will not be registered with the Securities and Exchange Commission under the Securities Act of 1933.

(m) Pursuant to KRS § 278.300, Columbia submits the following as part of this Application:

- (1) A balance sheet as of June 30, 2008, attached as Attachment A.
- (2) An income statement as of June 30, 2008, attached as Attachment B.
- (3) A statement of notes outstanding as of June 30, 2008, attached as Attachment C.
- (4) A statement of dividends paid, fiscal years 2003 – June 30, 2008 attached as Attachment D.
- (5) A summary of utility plant and accumulated provisions for depreciation, amortization and depletion as of June 30, 2008, attached as Attachment E.

.....**WHEREFORE**, Columbia respectfully requests that the Commission order that: .....

1. Columbia be authorized to issue and sell to NiSource Finance Corp. new Notes, and additionally, issue and sell Common Stock to Columbia Energy Group, in any combination of amounts not to exceed \$30,000,000. The total additional financing from the two sources shall not exceed \$30,000,000;

2. Columbia be authorized to issue, sell, and deliver the new Notes and Stock upon the terms and bases set forth in this Application;

3. Columbia be authorized to use the cash proceeds arising from the issuance and sale of the subject Notes and Stock for the purposes set forth herein; and,

4. That Columbia be authorized to take such other and further actions as may be necessary and proper.

Columbia requests that the Commission approve this Application as soon as practical so as to maximize Columbia's flexibility for the issuance of Notes and equity capital for which this Application is sought.

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Respectfully submitted,

**COLUMBIA GAS OF KENTUCKY, INC.**

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**COLUMBIA GAS OF KENTUCKY, INC.**



COLUMBIA GAS OF KENTUCKY, INC.  
Balance Sheet, Per Books, as of June 30, 2008  
Assets and Other Debits

	<u>Amount</u>
	\$
<u>Utility Plant</u>	
Gas Plant (101,105,106,107,114)	268,993,195
Less: Accumulated Provision for Depreciation and Amortization (108,111,115)	<u>117,392,919</u>
Net Utility Plant	<u>151,600,276</u>
<u>Current and Accrued Assets</u>	
Cash (131,135,136)	758,299
Notes and Accounts Receivable (Less Accumulated Provision for Uncollectable Accounts 141-144,171-173)	17,222,322
Receivables from Associated Companies (146)	30,096,980
Materials and Supplies (151,154,163)	43,280
Gas Stored Underground - Current (164)	16,549,397
Prepayments and Other Current Assets (165,174,175)	7,014,035
Other Special Funds (128)	2,980,429
Regulatory Assets Current (182)	<u>1,316,457</u>
Total Current and Accrued Assets	<u>75,981,199</u>
<u>Deferred Debits</u>	
Unrecovered Plant and Regulatory Study Costs (182)	4,319,897
Preliminary Survey and Investigation Charges (183)	300,116
Clearing Accounts (184)	13,423
Miscellaneous Deferred Debits (186,188)	1,841,140
Accumulated Deferred Income Taxes (190)	6,697,574
Unrecovered Purchased Gas Costs (191)	<u>23,084,646</u>
Total Deferred Debits	<u>36,256,796</u>
Investment in Subsidiary	260,556
Total Assets and Other Debits	<u>264,098,827</u>

COLUMBIA GAS OF KENTUCKY, INC.  
Balance Sheet, Per Books, as of June 30, 2008  
Liabilities and Other Credits

	<u>Amount</u>
	\$
<u>Proprietary Capital</u>	
Common Stock (201)	23,806,200
Other Paid-in Capital (211)	5,182,743
Earned Surplus (216)	73,454,799
Total Proprietary Capital	102,443,742
<u>Long-Term Debt</u>	
Advances from Associated Companies (223,233)	58,055,000
Other Long-Term Debt (224,231)	-
Total Long-Term Debt	58,055,000
<u>Current and Accrued Liabilities</u>	
Accounts Payable (232)	28,773,988
Accounts Payable to Associated Companies (234)	2,795,196
Customer Deposits (235)	2,756,164
Taxes Accrued (236)	2,827,619
Interest Accrued (237)	87,014
Tax Collections Payable (241)	709,154
Miscellaneous Current and Accrued Liabilities (242,244)	16,871,667
Capital Lease Obligations (243)	(54)
Accumulated Deferred Income Taxes, Current (282,283)	2,177,653
Regulatory Liabilities, Current (254)	2,947,727
Total Current and Accrued Liabilities	59,946,128
<u>Deferred Credits</u>	
Customer Advances for Construction (252)	1,530,357
Other Deferred Credits (253)	2,199,233
Regulatory Liabilities, Long Term (254)	5,432,926
Accumulated Deferred Investment Tax Credits (255)	810,856
Capital Lease Obligations (227)	85
Injuries and Damages Reserve (228)	5,917,520
Long-Term I/C Payable (234)	487,098
Total Deferred Credits	16,368,035
<u>Accumulated Deferred Income Taxes, Non Current (282,283)</u>	27,275,882
	43,653,957
Total Liabilities and Other Credits	264,098,827

COLUMBIA GAS OF KENTUCKY, INC.  
Statement of Income, Per Books, 12 Months Ended June 30, 2008

	<u>Amount</u>
	\$
<u>Utility Operating Income</u>	
Operating Revenue	<u>186,563,579</u>
<u>Operating Expenses</u>	
Operations Expenses	155,985,557
Maintenance Expense	2,680,002
Depreciation and Amortization Expense	5,485,802
Taxes Other Than Income Taxes	2,367,200
Income Taxes - Federal	1,362,023
Income Taxes - State	(93,639)
Income Taxes Deferred	8,578,802
Income Taxes Deferred - Credit	(2,477,301)
Investment Tax Credit Adjustment - Net	(86,688)
Total Utility Operating Expenses	<u>173,801,758</u>
Net Utility Operating Income	<u>12,761,821</u>
<u>Other Income and Deductions</u>	
<u>Other Income</u>	
Investment in Subsidiary	48,097
Interest Income	1,115,871
Miscellaneous Non-Operating Income	2,079,471
Total Other Income	<u>3,243,439</u>
<u>Other Income Deductions</u>	
Miscellaneous Income Deductions	<u>-</u>
Net Other Income and Deductions	3,243,439
<u>Interest Charges</u>	
Interest on Debt to Associated Companies	3,292,227
Other Interest Expense	274,957
Allowance for Funds Used During Construction - Debt	(47,677)
Total Interest Charges	<u>3,519,507</u>
Net Income	<u><u>12,485,753</u></u>

COLUMBIA GAS OF KENTUCKY, INC.  
Statement of Notes Outstanding as of June 30, 2008

<u>Line No.</u>	<u>Year Issued</u> (1)	<u>Principal Amount Per Books</u> (2) \$	<u>Date of Maturity</u> (3)	<u>Rate of Interest</u> (4)	<u>In Whose Favor</u> (5)	<u>Interest Paid During Fiscal Year Ended June 30, 2008</u> (6) \$
1	01-05-06	14,720,000	01-07-13	5.280%	Nisource Finance Corporatic	779,344
2	01-05-06	10,750,000	01-05-16	5.410%	Nisource Finance Corporatic	583,168
3	01-05-06	4,210,000	01-05-17	5.450%	Nisource Finance Corporatic	230,073
4	01-05-06	12,375,000	01-05-26	5.920%	Nisource Finance Corporatic	734,606
5	11-01-06	16,000,000	11-01-21	6.015%	Nisource Finance Corporatic	965,035
6	Total	58,055,000				3,292,227

COLUMBIA GAS OF KENTUCKY, INC.  
Statement of Dividends Paid, Fiscal Years 2003 to 2008

<u>Line No.</u>	<u>Year</u> (1)	<u>Dividend Paid</u> (2) \$	<u>Capital Stock</u> (3) \$	<u>Payout Rate</u> (4)
1	2003	6,475,284	23,806,200	27.200%
2	2004	9,000,000	23,806,200	37.805%
3	2005	4,000,000	23,806,200	16.802%
4	2006	-	23,806,200	0.000%
5	2007	-	23,806,200	0.000%
6	2008*	7,000,000	23,806,200	29.404%

\* Reflects dividends paid through June 30, 2008

COLUMBIA GAS OF KENTUCKY, INC.  
Summary of Utility Plant and Accumulated Provisions  
for Depreciation, Amortization and Depletion  
as of June 30, 2008

	<u>Amount</u>
	\$
<u>Utility Plant</u>	
In Service	
Plant in Service (Classified)	260,407,304
Property Under Capital Lease	50
Completed Construction not Classified	<u>3,023,947</u>
Total in Service	<u>263,431,301</u>
Held for Future Use	-
Construction Work in Progress	5,561,894
Acquisition Adjustments	-
Total Utility Plant	<u>268,993,195</u>
Accumulated Provision for Depreciation, Amortization and Depletion	<u>117,392,919</u>
Net Utility Plant	<u><u>151,600,276</u></u>

Detail of Accumulated Provisions for Depreciation, Amortization and Depletion

In Service	
Depreciation	114,749,887
Amortization of Other Utility Plant	<u>2,643,018</u>
Total in Service	<u>117,392,905</u>
Amortization of Plant Acquisition Adjustment	<u>14</u>
Total Accumulated Provisions	<u><u>117,392,919</u></u>